4th Quarter 2019, 1/10/2020

WHAT'S NEW AT FINANCIAL CONNECTIONS

Flavia Kirz

Flavia started January 6 as the company's new Business Manager. She will help Jill run/administer Financial Connections. She will also study to become a Certified Financial Planner Professional.

Flavia comes to us after a variety of positions in the financial services and accounting profession. She created Emerging Market Bond mutual funds for a joint venture with Banco Safra and JP Morgan in New York. She also created investment strategies for a $3 billion portfolio using Fixed Income (bonds), derivatives, and currencies.

Flavia started her career at Citibank in São Paulo, Brazil. She moved to New York working with Safra National Bank. She also spent time working at Mill Valley Schools Community Foundation and The Branson School.

Flavia, her husband, and children moved to Marin County in 2001. Her husband was born in Berkeley and wanted to return to the Bay Area.

Flavia graduated with a BA in Economics from Catholic University of Rio De Janeiro and earned an MBA in Finance from Wharton School of Business, University of Pennsylvania.

Danielle Bickel

Financial Connections has been short a person since August 2019, when Ivana took a job three minutes from home. While we will miss her, we understand the value in not having to commute from Petaluma to Corte Madera.

Danielle began as our new Client Services Administrator on January 6. You will hear her on the phone when you call. Her responsibilities will include working with clients on activities with TD Ameritrade, client portals, and website updates.

Danielle comes to us from the retail world where she gained kudos for her client support and attention to detail.

Danielle is a native of Marin. She wants to continue her studies to complete a Liberal Arts Degree. Danielle is excited to move from the retail world to the office world, especially having weekends off!

Please join us in welcoming Flavia and Danielle to the Financial Connections Team.

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NEW RETIREMENT REGULATIONS

In our 2019 second quarter newsletter, we outlined a bill by the Senate and one by the House to make changes to the retirement system. On December 20, the new bill was passed. It is called SECURE, Setting Every Community UP for Retirement Enhancement. (I wonder who makes up these acronyms?)

SECURE's two major highlights are:

- Delay of taking the required minimum distribution (RMD) from age 70.5 to age 72 starting in 2020. If you are already taking RMDs, there is no change. It affects Jill, for instance, because she turns 70.5 in 2020. Now she can wait until she is 72 to begin her distribution – a delay of a year and a half.
- Change from previous law, under which a non-spouse inheriting an IRA could withdraw money over their lifetime, referred to as the "stretch provision." The new law eliminates the stretching out of distributions. Now, a non-spouse inheriting an IRA needs to withdraw all the money in *10 years* (all withdrawals are subject to income tax).
    - Depending upon how you've designed your estate, you may want to consider being more active, converting IRA money to Roth IRAs. Roth IRAs still do not have RMD requirements until the account owner dies. Check with your tax professional and estate attorney.

We will have a more detailed synopsis in an upcoming blog.

Thank you for selecting your charity of choice.

ACLU Foundation	17%
California Fire Foundation	25%
Wildlife Conservation Network	25%
Doctors Without Borders	16%
SF Bay Area Food Banks	34%

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THE LONGEST BULL MARKET ON RECORD

The last 10 years showed a U.S. stock market on a consistent upward trajectory. There has not been a bear market since 2008 (a decline of over 20%). There have only been a few corrections (minus 10%) in this period. International markets have not fared as well in this decade.

The 30-year Treasury bond fell to 2.38% from 3.01% at the beginning of the decade. Inflation ranged from 0.7% to 2.1%.

As many of you know, most of us expect a downturn. We usually experience a bear market, on average, once every 3.5 years.

Signs of recession seem to be receding, according to the Fed. The economy grew at 2.3% in 2019. Global trade wars are beginning to affect certain sectors in the economy, and we don't know the impact of the Middle East situation.

While there are many measurements to assess the valuation of the U.S. stock market, one frequently used is CAPE (Cyclically Adjusted Price Earnings) Ratio. According to Robert Shiller, one of its co-creators, the last time this ratio was as high as it is now was in 1929 and 1999.

As we've written in previous newsletters, we are happy to discuss your portfolio(s). Please contact us at your convenience.

ARE THE ECONOMIC THEORIES WRONG?

While Brian and Jill are not economists, they do read numerous articles about the economy and economic theory. What we are beginning to see is more articles written about how the assumptions used by economists, the Federal Reserve, and politicians may no longer be valid.

Below is a compilation of several articles by Neil Irwin, a senior economic correspondent at *The New York Times,* Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, and Paul Mason, a British journalist and author of several economic books.

What is consistently being questioned are the economic theories that are being proven wrong. These theories were postulated in a different era when manufacturing, large capital investments, and farming dominated our economy. The decline began in the 1970s.

Today, our economy is primarily goods and services. As Nobel Prize winner Paul Romer said, we need to move from "land, labor and capital" towards "people, ideas, and things."

More than a decade apart, Jill and Brian took economic classes at different schools, which both taught basic tenets of economics that included:

- The economy will suffer from rising inflation if employment falls below a certain level (aka the "natural" rate of unemployment).
- Significant budget deficits discourage private (corporate) investments.
- Economies set an equilibrium/balance between wages and workers capabilities. Should wages (such as the minimum wage) rise, unemployment results because employers won't pay more.

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ARE THE ECONOMIC THEORIES WRONG? *(continued)*

Unemployment and Inflation—the rule of thumb guiding the Fed used to state that if the economy drops below 5%, unemployment, the result will be inflation. Yet unemployment is at 3.7% and inflation remains below the 2% level. Fed Chairman Jerome Powell is just beginning to acknowledge that its numbers may be off.

Budget deficits—we were taught that increasing deficits increases interest rates and slows growth. The theory is called "crowd out." When the government borrows, it leaves less borrowing capability for corporations. This connection has not stood the test of time.

In the Great Recession, policymakers here and in Europe reasoned that if government spending decreased, the private sector would not be "crowded-out." Again, this has not proved to be the case. Our budget deficit is at all-time highs with tax cuts and spending, yet the interest rate is hitting historical lows. The last time we had this "crowd-out" effect was in the 1970s and 1980s.

Higher minimum wage—has not resulted in higher inflation or a rise in unemployment. In fact, both are at 50-year lows. Some states increased their minimum wage, ignoring these economic theorems. Surprise, low-wage earners were able to support themselves better and unemployment in large numbers did not result. Other states are following suit.

A new report from the Congressional Budget Office (CBO), found that 27.3 million workers would benefit from a minimum wage increase to $15/hour by 2025 and that the number of poor would decline. Unfortunately, some workers may lose their jobs but the overwhelming evidence shows that most would not. This debunks the idea that all the low-wage earners lose.

As an aside, and something we've mentioned before, if the government and/or companies would invest in re-training workers for current technology, it would be win-win.

We realize this is a "dry" topic for most people, but it is fundamental to the way our economy is run to the forecasts, from policymakers to academics. Decisions may be made based on what may be incorrect assumptions. Apparently, no one predicted that the economy could continue to grow as it has over the last 11 years. Perhaps the budget reductions in 2013 and 2016 were not necessary.

And maybe it is time to revisit, revise, and update assumptions for the world as it is today rather than depend on assumptions created for a type of economy that no longer exists. Those using economic assumptions to make future predictions are not known for their success rates. To base those assumptions on a faulty foundation does not inspire confidence.

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A Bridge To Your Future

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